ANALYSIS OF SOVEREIGN CREDIT DEFAULT SWAP SPREAD DURING EUROPEAN DEBT CRISIS IN SPAIN

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i

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ABSTRACT

This thesis represented the determinants of Sovereign Credit Default Swap (CDS) spreads during European Debt Crisis in Spain. The collapse of economy in Spain occurred during the European Debt Crisis started in 2008. The debt crisis led to crisis of confidence for European businesses and economies. Prior to the crisis, CDS spreads were low in Spain, showing the investors have confident and there is a low probabilities of the default of their debts in Spain. After the financial crisis in 2008, the CDS spreads in European countries such as in Portugal, Ireland, Italy, Greece, Spain and Cyprus were raised because the investors relied heavily on foreign capital flows to roll over their debt obligations. Since the crisis, it is clear that investors have become increasingly wary of the distressed Eurozone countries. The CDS spreads continued to rise and reaching newer highs each quarter. This is because the investors fear and have a little faith in the countries' abilities to service their debt obligations. This thesis using statistical approach of ordinary least square to analysed all the variables. The period of analysis is between September 2008 and December 2014. Moreover, volatility index, equity index and bond spread have had a stronger impact on Spain CDS spread since the onset of the recent European Debt Crisis. The main purpose of this thesis will identify sovereign CDS spread in Spain that associated with the current sovereign debt crisis.

CONTENTS

CHAPTER 1

INTRODUCTION

1.0 Introduction

In this chapter, it will discuss on the overview of the background of the study, problem statement on why the research been carried out, research objectives, research question, significant of the study as well as the scope of the study. This paper focuses to analyse whether volatility index, equity index and bond spread would impact the CDS spread in Spain during 2008 until 2014.

The research question in this chapter will discuss about the question related to the theoretical framework in my research. This paper consist of two research questions which are the main research question and specific research question. The main research question on my research is clearly related with the independent variable which it act as the basic research in my study while the specific research question act as supportive to the main research question. In addition, this paper has a research objective to clarify why the study is being done. In this chapter, this paper will give the important information of the study for all parties such as researcher, future researcher as well as for the general use and this will be covered in the significant of the study.

1.0.1 European Debt Crisis

The first phase of the financial crisis marked on August 2007 with the beginning of liquidity operations by the European Central Bank. The global crisis entered into critical phase in September 2008 with the collapse of Lehman Brothers. The critical global